**ACCOUNTING ASSIGNMENT**

**Questions:**

1. Explain the following basic principles of Accounting.
2. Going concern
3. Accruals concept
4. Consistency
5. Materiality
6. Describe the desirable characteristics of accounting information.

**GROUP MEMBERS**

These are the members who did the above stated assignment:

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**Answers to Question 1**

1. **GOING CONCERN**

This is the assumption that the enterprise (firm) is a continuing one and not in the verge of cessation. It is also the assumption that the firm will continue in operational existence in the foreseeable future and there is no intention or the necessity to liquidate or to curtail the significantly the operations.

The significance of going concern concept is that the assets of the business should not be valued at their ‘break up’ value which is the amount that they would fetch if they were sold piece meal.

Many assets derive their value from the employment in the firm, and should the firm cease to operate the value which would be obtained from these assets on a closing-down-sale would probably be much less than their book value.

An account should assume that business will continue to do in the future the same way sort of things as it has done in the past.

1. **ACCRUAL CONCEPT**

By this it means the effects of transactions and other events are recognized when they occur, rather than when cash or the equivalent is received or paid, and they are reported in the financial statements of the period when they are earned not necessarily when received.

It makes a distinction between the receipt of cash and the right to receive cash, and the payment of cash and the legal obligation to pay cash, because in practice there is usually no coincidence in time between cash movements and the legal obligations to which they relate.

Revenue may be defined as the right to receive cash and the accounts are concerned with recording these rights. It provides a guideline as to how to treat this cash receipts and the rights related thereto.

1. **CONSISTENCY**

The accounting policies must be applied consistently from one period to another. This concept also requires like items to be treated in the same manner both within one set of accounts and from one period to another.

The usefulness of financial information lies to a considerable extent in the conclusions which may be drawn from the comparison of the financial statements of one year with those of a preceding year and the financial reports of one company with those of another.

This helps in decision making especially for the managerial staff.

1. **MATERIALITY**

Generally, an item is material if its inclusions a class of its own, may influence the judgment and decision of a reasonable person.

Where minute analysis or calculation of a precisely accurate figure would involve trouble, expense or delay disproportionate to any advantage to be gained from such precision , a reasonable approximation shall be acceptable.

**Answers to question 2**

These are the desirable characteristics of good accounting information;

1. **RELEVANCE**

Information is relevant to decision making if it has the qualities to help the decision-maker to form an expectation (predictive value), to confirm expectation (confirmatory value) and to revise an expectation (corrective value). These are the predictive and feedback values.

The role of accounting in confirming a past event is important because users often wish to check on the accuracy of earlier predictions that they have made.

1. **UNDERSTANDABLE**

This is the provision of information that will be comprehensive to less informed users of accounting information without omitting information. Generally, is the supply of information in such a way that it would be easily comprehensive.

Accounting reports should be expressed as clearly as possible and should be understood by those at whom the information is aimed at.

1. **RELIABLE**

The users of accounts should be able to assess the degree of confidence to be put on use of financial reports. Credibility of information is enhanced if the information can be independently verified.

The information should also be free from significant errors and bias.

1. **PRUDENT**

This requires that an accountant does not take credit for revenue until it has been realized in cash or near cash, but provide for all liabilities whether known with certainty or reasonable estimate.

The intention is to create some sort of bias that in case of doubt an accountant will report the lowest profit as far as possible as well as lowest value of assets.

In case of conflict between accruals and prudence concept prevails.

In essence prudence is the inclusion of a degree of caution in the exercise of the judgment needed in making the estimates required under conditions of uncertainty such that the assets or income are not overstated and liabilities or expenses are not understated.

1. **TIMELINESS**

Financial reports should be timely.

The timing of reports refers to the needs for financial statements to be reported reasonably soon after the end of the financial year (period) which they relate on the ground that up-to-date information is more useful than late information.

1. **OBJECTIVE**

The information presented should be objective and non-biased in such a way that it should meet all proper user needs and be neutral, not biased towards the interest of any one user group.

1. **COMPARABLE**

Financial information should be comparable with the same company’s previous year’s result as well as those of other companies.

The essence of economic decision is choice among possible causes of action. Choice requires awareness of the opportunity offered by alternatives.

1. **REALISTIC**

Realistic reports should avoid absolute precision when such precision does not exist and that users should be aware of precision used. The accounts should show a realistic view of the company’s affairs. The ‘true’ and fair view of the legal requirement (Companies Act) is the basis of realistic reports.

1. **CONSISTENCY**

Holding other things constant, the consistent treatment of items overtime is desirable so as to aid comparability. However should not cause an obsession, which will hinder progress.

When a new accounting method is introduced, is desirable to report using old and new methods for a given time so as to maintain comparability.

1. **BENEFIT OVER COST**

The alternative cost of effective aids of presentation should be weighed against benefits the optimum method should be used.

Financial information should be provided only if the cost of providing it is less than the benefit, or value, to be derived from its use.

The graph below shows how the value of info received by the decision maker may have in processing the sheer quantity of information provided.

Cost however increases with each additional piece of information.

When weighing the cost of providing additional financial information against the benefit, there is also the problem that those who bear the burden of the cost may not be the ones who benefit from the additional information.

This graph shows how the benefits of financial information will eventually decline

Cost

Value

Value

Or

Costs

Quantity of Information